

drawn down and used by eligible households within the period of time specified by the Bank in its AHP implementation plan, the Bank shall cancel the application for funds and make the funds available for other applicants for homeownership set-aside funds or for other AHP-eligible projects.

(2) *Member certification upon disbursement.* Prior to disbursement of homeownership set-aside funds by a Bank to a member, the Bank shall require the member to certify that:

(i) The funds received from the Bank will be provided to a household meeting the eligibility requirements of § 960.5(a)(2);

(ii) If the member is providing mortgage financing to the household, the member will provide financial or other incentives in connection with such mortgage financing, and the rate of interest, points, fees, and any other charges by the member will not exceed a reasonable market rate of interest, points, fees, and other charges for a loan of similar maturity, terms, and risk; and

(iii) Funds received from the Bank for homebuyer counseling costs will be provided according to the requirements of § 960.5(a)(7).

(c) *Competitive application program—*

(1) *Time limit on use of subsidies.* If AHP subsidies approved for a project under a Bank's competitive application program are not drawn down and used by the project within the period of time specified by the Bank in its AHP implementation plan, the Bank shall cancel its approval of the application for the subsidies and make the subsidies available for other AHP-eligible projects.

(2) *Compliance upon disbursement of subsidies.* A Bank shall verify prior to its initial disbursement of subsidies for an approved project, and prior to each disbursement thereafter, that the project meets the eligibility requirements of § 960.5(b) and all obligations committed to in the approved application.

(3) *Changes in approved AHP subsidy amount where a direct subsidy is used to write down prior to closing the principal amount or interest rate on a loan.—*(i) *Change in subsidy amount.* If a member is approved to receive a direct subsidy to write down prior to closing the prin-

cipal amount or the interest rate on a loan to a project and the amount of subsidy required to maintain the debt service cost for the loan decreases from the amount of subsidy initially approved by the Bank due to a decrease in market interest rates between the time of approval and the time the lender commits to the interest rate to finance the project, the Bank shall reduce the subsidy amount accordingly. If market interest rates rise between the time of approval and the time the lender commits to the interest rate to finance the project, the Bank may, in its discretion, increase the subsidy amount accordingly.

(ii) *Reconciliation of AHP fund.* If a Bank reduces the amount of AHP subsidy approved for a project, the amount of such reduction shall be returned to the Bank's AHP fund. If a Bank increases the amount of AHP subsidy approved for a project, the amount of such increase shall be drawn first from any currently uncommitted or repaid AHP subsidies and then from the Bank's required AHP contribution for the next year.

§ 960.9 Modifications of applications after project completion.

Modification procedure. After final disbursement of funds to a project from all funding sources, a Bank, in its discretion, may approve in writing a modification to the terms of an approved application for subsidy funding the project, other than an increase in the amount of subsidy approved for the project, if there is or will be a change in the project that materially affects the facts under which the application was originally scored and approved under the Bank's competitive application program, provided that:

(a) The project is in financial distress, or is at substantial risk of falling into such distress;

(b) The project sponsor or owner has made best efforts to avoid noncompliance with the terms of the application for subsidy and the requirements of this part;

(c) The project, incorporating any material changes, would meet the eligibility requirements of § 960.5(b); and

(d) The application, as reflective of such changes, continues to score high

enough to have been approved in the funding period in which it was originally scored and approved by the Bank.

§ 960.10 Initial monitoring requirements.

(a) *Requirements for project sponsors and owners*—(1) *Owner-occupied projects.*

(i) During the period of construction or rehabilitation of an owner-occupied project, the project sponsor must report to the member semiannually on whether reasonable progress is being made towards completion of the project.

(ii) Where AHP subsidies are used to finance the purchase of owner-occupied units, the project sponsor must certify annually to the member and the Bank, until all approved AHP subsidies are provided to eligible households in the project, that those households receiving AHP subsidies during the year were eligible households, and such certifications shall be supported by household income verification documentation maintained by the project sponsor and available for review by the member or the Bank.

(2) *Rental projects.* (i) During the period of construction or rehabilitation of a rental project, the project owner must report to the member semiannually on whether reasonable progress is being made towards completion of the project.

(ii) Within the first year after project completion, the project owner must:

(A) Certify to the member and the Bank that the services and activities committed to in the AHP application have been provided in connection with the project;

(B) Provide a list of actual tenant rents and incomes to the member and the Bank and certify that:

(1) The tenant rents and incomes are accurate and in compliance with the rent and income targeting commitments made in the AHP application; and

(2) The project is habitable; and

(C) Maintain documentation regarding tenant rents and incomes and project habitability available for review by the member or the Bank, to support such certifications.

(b) *Requirements for members*—(1) *Owner-occupied projects.* (i) During the

period of construction or rehabilitation of an owner-occupied project, the member must take the steps necessary to determine whether reasonable progress is being made towards completion of the project and must report to the Bank semiannually on the status of the project.

(ii) Within one year after disbursement to a project of all approved AHP subsidies, the member must review the project documentation and certify to the Bank that:

(A) The AHP subsidies have been used according to the commitments made in the AHP application; and

(B) The AHP-assisted units are subject to deed restrictions or other legally enforceable retention agreements or mechanisms meeting the requirements of § 960.13(c)(4) or (d)(1);

(2) *Rental projects.* (i) During the period of construction or rehabilitation of a rental project, the member must take the steps necessary to determine whether reasonable progress is being made towards completion of the project and must report to the Bank semiannually on the status of the project.

(ii) Within the first year after project completion, the member must review the project documentation and certify to the Bank that:

(A) The project is habitable;

(B) The project meets its income targeting commitments; and

(C) The rents charged for income-targeted units do not exceed the maximum levels committed to in the AHP application.

(c) *Requirements for Banks*—(1) *Owner-occupied projects.* Each Bank must take the steps necessary to determine, based on a review of the documentation for a sample of projects and units within one year of receiving the certifications described in paragraph (b)(1)(ii) of this section that:

(i) The incomes of the households that own the AHP-assisted units did not exceed the levels committed to in the AHP application at the time the households were qualified by the sponsor to participate in the project;

(ii) The AHP subsidies were used for eligible purposes, the project's actual costs were reasonable and customary in accordance with the Bank's project